



The Way We See It

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INSIDE THIS ISSUE

1. Review of Developments
 - Global Economies
 - Global Markets
2. Market Outlook
3. The Way We See It
 - Global Markets and Investment Thematics
4. Postscripts
 - Economic & Market Impact of Trump 2.0's Tariff War
 - Gold rally to continue?

How damaging could Trump 2.0's domestic structural reforms, together with military and tariff threats, be?

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

Review of Developments

- Global Economies

On growth dynamics, the first official estimate of the U.S. Q4 GDP showed a mild deceleration of U.S. growth from a 3% annualised rate of growth to 2.4% p.a. Consumer spending remains robust, growing at 4.2% p.a. Capital Expenditure spending slowed significantly, caused by the uncertainty relating to the outcome of the U.S. election.

The European economic bloc remained stagnant, forcing the ECB to continue to cut rates. Japan is projected to see a small positive, albeit decelerating, pace of growth in Q4.

In China, official statistics showed that the government's attempt to reflate the struggling property and domestic consumption sectors has worked: Q4 GDP rose to an annualised rate of 5.4% compared to the 4.6% rate in Q3. However, private economic firms estimated that China's real GDP

could be lower than the government's re-assurance that the economy is growing at around 5% p.a. in 2024. As a result, domestic and global investors continue to hope that, in 2025, the government will implement bolder and larger fiscal measures to boost the confidence of Chinese households and the private corporate sector.

On the inflation front, in the case of Europe and other OECD countries, headline and core inflation indicators continued to decelerate, thus raising expectations of further rate cuts. In the U.S., the core inflation rate has not managed to fall below the annual 2.5% for some time. Strong domestic consumption and sticky core services inflation have put the Fed's easing policy on hold.

As a result, the global economy has continued to grow on a sub-par basis, as shown by the JPM global composite PMI chart below.

J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global Market Intelligence

Finally, while global geopolitical risks have not gone away, they have improved somewhat. The military conflict between Israel versus other warring Arab countries has definitely been cooling down. However, tensions between Russia vs Ukraine remained high. In addition, trade tensions between the U.S. and the rest of the world are intensifying. Threats are being made against Mexico, Canada and China. While some tariffs attacks are being delayed, the war appears to only have just started.

Market expects bolder support from Beijing.

Inflation slows in Europe but remains sticky in U.S.

- Global Markets

Following a sluggish performance in December, the month of January saw the seasonal return of new funds to equities.

However, markets' volatility remained high. Positive factors were partially offset by adverse ones, resulting in a more volatile trading environment.

- Positive factors include the continuing AI revolution in the U.S., global upgrades of economic and corporate earnings, hopes for the continuation of the implementation of an easy monetary policy in the U.S. and OECD bloc, and that the big-spending fiscal trend in the U.S. will continue.
- Negative factors firstly include the likely implementation of a series of tariff hikes by the Trump government on Mexico, Canada and China, with the real concern of this spreading to other countries (Europe, Emerging Markets). Moreover, an increasingly expensive valuation of U.S. equities (particularly Magnificent 7 and other high-growth winners) against rising bond yields demand a better-than-expected delivery of sales and earnings growth.
- Furthermore, a number of experienced investors are concerned that equity ownership amongst retail and institutional investors has risen dramatically over the past few months. This begs the question whether all good news have been discounted and that the market could be susceptible to unexpected bad news.

The global equity universe, in USD terms, rose in January by 3.55%. The U.S. saw a rise of 3.04%, while the global ex-U.S. equity universe increased in value by 4.99%. In the Emerging Markets universe, Chinese equities also rose, but underperformed both the Developed and EM universe (offshore China: +0.95%, China A: -2.12%).

U.S. Treasuries and other domestic and global fixed income markets achieved a modest positive return in January. Despite concerns over the inflationary

Equity market could be susceptible to unexpected news (e.g. birth of Deepseek).

consequence of tariff hikes and cuts in the net number of immigrants coming to the US, bond investors appeared to be attracted by the relatively high annualised yields of 4.7-5% of long-duration Treasuries.

The USD rose against many currencies against the world, as “American Exceptionalism” rules the airwaves and U.S. interest rates remain attractive.

The Commodities complex rose, helped by a rise in energy prices.

Near-term performance of various asset classes

Asset Class Index	US Equities MSCI USA	Global Equities MSCI World	Global ex US Equities MSCI World ex USD
1 month	3.04%	3.55%	4.99%
3 months	6.71%	5.55%	2.46%
YTD	3.04%	3.55%	4.99%
FY 2024	25.08%	19.19%	5.26%

Asset Class Index	US Corporate Bloomberg US Corporate	US Treasury Bloomberg US Treasury	US Aggregate Bloomberg US Agg
1 month	0.55%	0.52%	0.53%
3 months	-0.07%	-0.26%	-0.07%
YTD	0.55%	0.52%	0.53%
FY 2024	2.13%	0.58%	1.25%

Asset Class Index	Global Govt Bonds Bloomberg Global TSY	Global Aggregate Bloomberg Global Agg	Global Commodities CBR
1 month	0.58%	0.57%	2.77%
3 months	-1.64%	-1.25%	8.97%
YTD	0.58%	0.57%	2.77%
FY 2024	-3.58%	-1.69%	12.47%

Asset Class Index	GEM Equities MSCI EM	Asia ex Japan Equities MSCI AC AxJ	China Offshore MSCI China
1 month	1.81%	0.76%	0.95%
3 months	-1.93%	-2.35%	-0.92%
YTD	1.81%	0.76%	0.95%
FY 2024	8.05%	12.51%	19.67%

Source: GOJI, MSCI, Bloomberg; data as of 31/1/2025

Risky assets finished the year with a good run.

Market Outlook

As our readers and clients are aware, GOJI's Market Outlook is based on our assessment of macro economic developments, forecasts of growth of sales and profits of companies, valuation of key asset classes, and last but not least, investors' positioning and sentiment towards key asset classes, together with their likely resulting flows and the technical charts' trends.

First, the macro economic backdrop in this calendar year is reasonably favourable. We expect that, depending on the intensity of the tariff trade war and European / China recovery potential, the global GDP growth rate will be at or slightly below their long-term equilibrium. This would allow global cash rates to remain relatively market friendly.

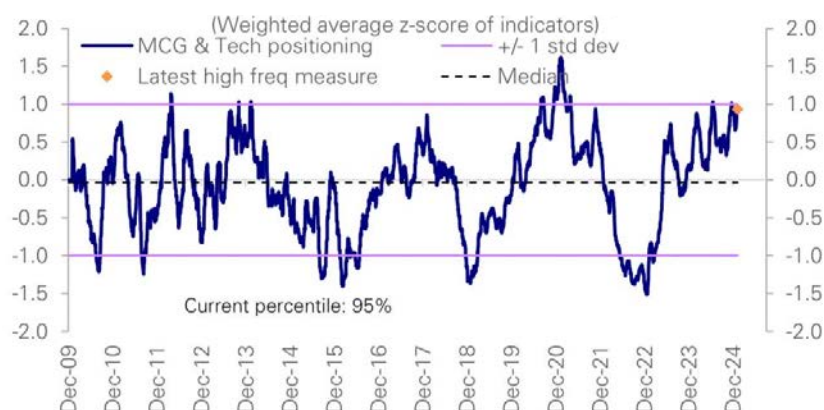
Second, we expect that companies will likely be able to deliver their sales and profit results, based on more realistic analysts' forecasts.

Third, while bond valuations appear more reasonably priced than their equity counterparts, both asset classes are not outright cheap nor expensive. We note that the high valuation of 22X forward P/E on the S&P 500 is not outlandish, as long as their corporates (especially Magnificent 7 and other high-growth stocks) achieve their high sales and profit growth targets, and that the 10-year Treasury Bond yield does not significantly rise above 4.50% pa.

Fourth, the latest data on the equity positioning of Discretionary/Fundamental and Systematic investors during the month showed that while both types of investors slightly reduced their exposure of late, they are still holding historically high exposures to Equities (*particularly in Magnificent 7 and other high-growth stocks*). In brief, should a significant adverse event hit the U.S. stock market, a large and quick fall of 20-30% could occur. Thus, the potential downside to upside risk ratio is high.

Investors still hold high exposure to high growth equities - potential downside-to-upside ratio is high.

Mega-cap Growth & Tech Positioning

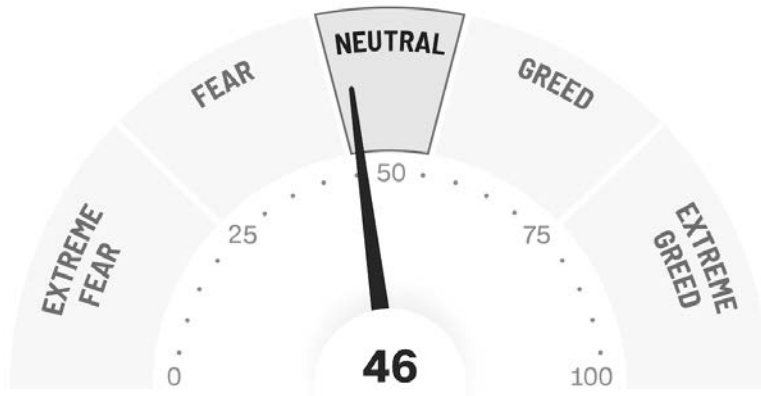


Source: Deutsche Bank Asset Allocation

In the month, traders and investors' sentiment fell modestly, oscillating between Fear and Neutral.

Fear & Greed Index

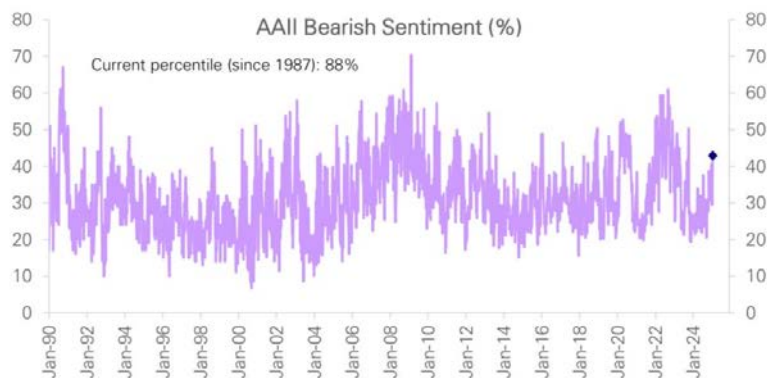
- What emotion is driving the market now?



Source: CNN Business
Last update January 31 at 7:00:00 PM ET

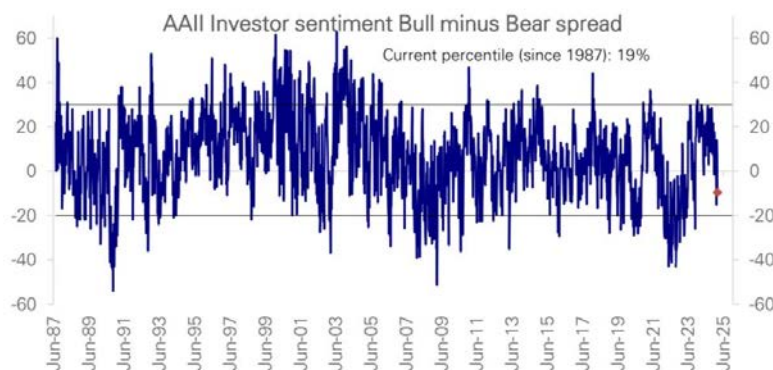
Sentiment retrieved recently back to [low end of] Neutral.

Investor Bearish Sentiment



Data as of February 5 2025
Source: Barron's, Haver Analytics, Deutsche Bank Asset Allocation

Investor bull minus bear spread



Data as of February 5 2025
Source: Barron's, Haver Analytics, Deutsche Bank Asset Allocation

Short-term Technical Analysis

Finally, a quick assessment of U.S. and global technical charts suggests that the world leading equity indices, Dow Jones Industrials and S&P 500, remain in a long-term bull market, supported by the Golden Cross which was formed in October / November 2023.

In the shorter-term, the above indices have been consolidating and trading in a Neutral zone.

S&P 500 Stock Price Index



Source: MarketWatch.com

DJIA & SPX have been consolidating in a Neutral zone.

The latest Investors' Positioning chart shows that both Discretionary / Fundamental and Algo-driven Systematics investors have modestly reduced their equity exposure following Trump's tariff threats.

Consolidated Equity Positioning



*Weights based on explanatory power in regression of equity performance on indicators

Source: Deutsche Bank Asset Allocation

The Way We See It

- Global Markets and Investment Thematics

At GOJI, we advocate a two-pronged strategy to invest in risk assets.

While our shorter-term tactical (3-6 months) and long-term strategic (1-2 years) views may differ substantially, since the end of November 2024, we have been advocating a risk-adjusted stance towards equities. In other words, we suggested to reduce any overweight in expensive and popular hot stocks and to adopt an overall Risk-Neutral stance in a multi-asset portfolio.

Long-term Risk-Neutral Strategy Rationale:

As outlined in our Global Investment Outlook for 2025, and our recent monthly reports, it is our belief that both fundamental and quant-driven investors have priced in, positioned for and have been prepared to pay up for a best-case scenario of a pro-growth and pro-equities/-crypto investment scenario under Trump 2.0.

A Goldilocks scenario, but with relatively expensive equity valuations in a still-rising bond yield environment. Hence our hesitation to be overweight equities from a long-term strategic viewpoint.

Thus, our long-term strategy recommendation continues to advocate to hold a neutral exposure to risk assets, with a modest underweight exposure to expensive risky growth assets, and overweight cash and less volatile quality assets.

Risk-Neutral Tactical Rationale:

In early August, we took advantage of the massive fall of risky assets (caused by factors which are well known to all by now - please refer to GOJI's September issue), to recommend to our clients to buy them, and build a moderate overweight exposure in U.S. and global equities.

Our tactical bullish view then changed in our November 2024 report, advocating a Risk-Neutral stance. We maintain this view for now.

**GOJI's LT view:
neutral to risk assets,
with a modest u/w to
expensive risky high
growth assets**

Postscripts

This month's Special Sections are focused on two topics. Firstly, the likely economic and market impact of an aggressive tariff war under Trump 2.0, and secondly, we look at Gold and the sustainability of the strong rally.

Special Section #1: Economic & Market Impact of Trump 2.0's Tariff War

In an all-out tariff war, there is no doubt whatsoever that both the US and the world will suffer from both higher prices and a collapse in the volume of exports and imports. A global recession with high inflation, worse than a stagflation scenario.

Experienced economists would use the 1930s experience of an aggressive tariff war to paint a very gloomy picture of how the latter contributed to a worsening the global recession and pushed it into a depression.

Hence, an aggressive tit-for-tat tariff war will result in a worst case scenario of lower GDP and higher inflation in the short-term. This could ultimately end up with a recession, with deflationary risks.

Stockmarkets are most likely to lose between 20-30% of their value in an aggressive tariff war. USD cash and Gold are the sole assets which are most likely to win.

Special Section #2: Gold rally to continue?

As we discussed above, an aggressive tariff war will most likely make Gold one of the winners.

In addition, and importantly, as long as Central Banks of economies remain concerned about the indirect and unintended political consequences of the tariff and military wars (ie, potential sequestration of their US Treasury abunds and bills by the US government), they will diversify into Gold.

Thirdly, unlike Crypto, most long term institutional, sovereign wealth funds and central banks are allowed to invest in Gold. As the latter's new supply is limited, a constant demand force from these large investors could push the gold price towards US\$3,500 to US\$4,000 per ounce.

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